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Legitimacy of team rewards: Analyzing legitimacy as a condition for the effectiveness of team incentive designs

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ABSTRACT

This article illustrates how the legitimacy of pay and evaluation processes in teams affect the effectiveness of team-based incentive designs in organizational work teams. We present a theoretical model of the development of legitimacy in team-based incentive designs and propose that the development of legitimacy for both pay dispersion in teams (i.e., difference in allocations of incentives among team members) and for the use of interdependent evaluations of performance promote team effectiveness. Our model introduces a new perspective to theorize about the conditions under which team rewards are an effective incentive design.

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Many of the important decisions organizations make to successfully utilize work team structures concern reward systems as one of the core aligning mechanisms. Team reward refers to the adoption of incentive programs in which parts of incomes are tied to the achievement of team goals or some other measure of team performance and is conceptualized in much of the compensation literature as enhancing employee contributions to performance (Landau and Leventhal, 1976; Zenger and Marshall, 2000). Goal-setting theory supports the idea that one of the main mechanisms by which incentives influence performance is by generating commitment to incentive goals (Locke and Latham, 1990; Renn, 1998). In the particular case of team rewards, these goals are at the least twofold: (a) motivate and reinforce individual performance, and (b) promote cooperative team-level behavior (Beersma et al., 2003; DeMatteo et al., 1998).

Academic research on team rewards has focused largely on issues of cooperative versus competitive rewards and on task interdependence as the main moderating constructs in the relationship (Wageman, 1995). Although task interdependence is derived from the demands and constraints inherent in the team's tasks (Humphrey et al., 2007b; Saavedra et al., 1993) and is descriptive of situations in which cooperation is a needed antecedent to team performance, it provides little guidance about motivational levels resulting from differentiations in the workforce. Thus, despite hundreds of studies examining team rewards, the conditions under which team rewards will be effective are unclear (DeMatteo et al., 1998).

What then are the conditions under which team rewards are an effective pay design? As individuals' social integration increases, they become more a team and less a collection of individuals and can then act collectively to develop the legitimacy of the compensation plan. In fact, what is a team if it is not a consensus? The effectiveness and survival of compensation programs may result from the legitimation of the pay plan structure by the employees. The purpose of this article is to propose a conceptual model for analyzing team-based reward programs with an emphasis on outlining the development of legitimacy in the reward expectations of team members and the relationship between that legitimacy and the effectiveness of team rewards. We define legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995).

Traditional perspectives on team rewards, motivation, and performance provide different and sometimes contradicting predictions about how team processes may develop in a situation with interdependent tasks and rewards. Expectancy theory predicts some increased performance only if employees can see the link between effort, performance, and outcomes. This link is usually difficult to identify (DeMatteo et al., 1998). For example, individuals in a sales organization may have difficulty understanding scrap levels in production or design issues in engineering. Relative worth and pay status perspectives predict different effects for different team members based on their different sensibilities to incentive intensity — for

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example, incentives that can motivate a manufacturing foreman but may demotivate a highly paid engineer (Bloom, 1999). Predictions for different individuals will be different based on the value of the incentive to each person. A monetary incentive may be very important for one team member but less important for another who places more value on autonomy than financial gain. Agency theory predicts that mutual monitoring and therefore cooperation will emerge from the interdependence between agents who anticipate a financial incentive based on team outcomes (Fama and Jensen, 1983), especially where they are treated in a procedurally and distributionally fair manner (Welbourne et al., 1995). Recent studies on interdependence predict that task interdependence will promote cooperation, and the type of reward system will add no additional explicative value to performance (Wageman, 1995). Reactance theory predicts that high self-esteem members will be compelled to protect their freedom in order to realize preferred outcomes (Brockner and Elkind, 1985), presenting a threat to cooperative behavior development.

We examine the conditions under which team reward is an effective incentive design by integrating knowledge from diverse settings and applying the concept of legitimacy to team reward effectiveness and pay dispersion (Ensley et al., 2007). First, we introduce legitimacy as a fundamental social process mediating the relationship between structure (i.e., work design and team member characteristics) and action (i.e., motivation to perform and/or cooperative behavior). Legitimation is a process that brings the unaccepted into agreement with accepted norms, values, beliefs, practices, and procedures (Berger et al., 1972). Thus, a mediating mechanism may help us explain why, in contradiction to expectancy theory (Vroom, 1964), employees under certain team reward situations accept investing effort or cooperative behavior even when they have very limited control over the outcome. Second, consistent with goal setting approaches that see incentives as promoting commitment to goals, we organize our theory around two team incentive plan components that are described in multiple accounts of the practice of applying team rewards: the evaluation of merit and the allocation of rewards (Weinberger, 1998). Third, we explore interdependence, the degree to which team members depend on each other to perform their tasks effectively given the design of their jobs (Saavedra et al., 1993). In their review of the team composition literature, DeMatteo et al. (1998) suggest that task interdependence is a critical moderator of the effectiveness of team rewards. We go beyond this simple perspective by focusing on exactly what task interdependence impacts. Fourth, we describe the effects of legitimacy of team rewards on team effectiveness.

The model of legitimacy of team rewards presented here can be useful for organizational theory in three ways. First, it offers theoretical insight into the need to distinguish collective from individual sources of legitimacy in the assessment of incentive programs (Berger et al., 1972; Weber, 1968). Legitimacy acts through a collective consensus that governs behavior and is binding on the members of a team (Ridgeway, 1989). This new approach to team rewards also highlights the dynamic nature of the team process and the implications that participating in work teams may have in the redefinition of individual work identities. Throughout this paper, work teams, teams, and similar expressions are used interchangeably and mean interdependent collections of individuals who have responsibility for common outcomes.

1. Legitimacy theory

Legitimacy has long been recognized as a fundamental social property affecting the behavior, structure, and stability of organizations and teams (Habermas, 1975; Weber 1968). Legitimacy operates through a process by which cultural accounts from a larger social framework within which a social entity is nested, for example a team reward system or an organizational structure, are construed to support and explain the existence of that social entity (Berger and Luckmann, 1966; Berger et al., 1973). Legitimacy has been studied as a property of teams, power or authority structures, reward redistributions, and cultural practices (Berger and Luckmann, 1966; Walker et al., 1986). Legitimacy is fundamentally the result of a multilevel process (i.e., legitimation) that involves inputs at the level of the broad encompassing social framework, at the level of the object of legitimacy (for example, the team for a team reward system), and at the more local level of actors who mediate the construction of reality that grants or undermines legitimacy (Ridgeway et al., 1998). We are concerned here with legitimacy as a property of team reward systems.

One aspect of organizational life that can impact the legitimacy of team rewards systems is the idea of organizational justice. Although distinct from legitimacy in several ways, this construct is also similar to particular aspects of legitimacy. In order to distinguish similarities and differences between the two constructs, we need to further elucidate the construct of organizational justice.

One dimension of organizational justice that may be related to legitimacy is distributive justice (Colquitt et al., 2001), theorizing of which can be traced back to Aristotle's description of an empirical distributive justice in which rewards were just if they were congruent with contributions. It was further developed in Adam's (1965) work on equity theory, which predicts that employees will evaluate distributive fairness by comparing the ratio of their own inputs and outcomes with some referent's ratio. When these comparisons are unequal, employees perceive their situations as unfair and are motivated to modify their inputs and outcomes, creating pressure for redistribution (Berger et al., 1972), changing their referent choices or perceptions, or quitting in order to maintain their self-concepts. Findings show that outcome distributions perceived to be unfair can lead to lower performance (Greenberg, 1986), reduced commitment (Chebat and Slysarczyk, 2005), or higher turnover and absenteeism (DeConinck and Stilwell, 2004). But nonexperimental investigation finds much less redistribution than do experiments (Bacharach and Baratz, 1970), and the effects of positive inequity do not appear to be as strong as those of negative inequity (Bloom, 1999; Greenberg, 1986). An unfair distribution of outcomes creates pressure to redistribute (Berger et al., 1972). This is usually conceptualized as an auxiliary phenomenon to a variety of processes such as power, authority, political stability (Ridgeway and Berger, 1986), rewards (Adams, 1963; Homans, 1961), and norm formation (Berger et al., 1972). This distinction is important as we consider legitimacy theory where the acceptance of an outcome as fair would fall under one of the dimensions of legitimacy defined by Zelditch (2006), which he explains as having a social dimension called “validity” and an individual dimension called “propriety.” Distributive justice would affect the propriety dimension in that those who saw the outcomes as unfair would not endorse the practices of the team as legitimate on that dimension.

Similarly, the idea of procedural justice (Leventhal, 1980) should map well on the legitimacy construct , which is more in line with the conceptualization of validity (Zelditch, 2006) in that something is seen as procedurally fair if the generally social conventions are upheld. That is, the individual has the opportunity to voice an opinion, there is opportunity to provide feedback, and the individual can impact the process. If these conditions are met, the social convention is that the process is fair.

Weber (1968) re-directed the issue of legitimacy in modern social science by stressing forms of organization that provide guidance for action emerging from perceptions of a legitimate order (Ruef and Scott, 1998; Weber, 1968). Extensions of legitimacy in modern theory beyond power structures come from Parson's (1960) idea of the need to validate resource allocations through the consistency between the alignment of the criteria (i.e., use of resources) and societal values and/or functions. New institutionalism theories then advanced the notion of organizations as matching general cultural or normative